

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 449
Version: As introduced

DATE: March 4, 2011

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Subject: Repeals 2% contractor withholding requirement

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Overview

Repeals the 2 percent contractor withholding requirement

- 1 **Cross-reference.** Strikes a reference to the contractor withholding requirement, which is repealed in section 2
- 2 **Repealer; 2 percent contractor withholding.** Repeals the requirement that construction contractors withhold 2 percent of payments to individuals (other than employees) who perform contract work for them as Minnesota withholding tax, if total payments to the individual during the year exceed \$600.
Background. This requirement was enacted in 2008 and first took effect in January 2009. It applies, based on North American Industry Classification System codes, to:
 - Construction of buildings
 - Heavy and civil engineering construction
 - Specialty trade contractors

The requirement applies to payments that are subject to federal information reporting (IRS Form 1099). In applying the withholding tax, the individual is treated as an employee. Recipients must furnish the contractor with their names, addresses, and social security numbers. (Federal law imposes a similar requirement to permit 1099 information reporting.) Withholding does not apply to payments made to entities (corporations, partnerships, LLCs, and so forth).